Public Service Commission Response
Legislative Policy Analysis of 1/23/05

<u>Page 2 Under the Title of "Major Trends"</u>

- Common Carrier Division: PSC's modification of the investigation and complaint process is expected to increase the time required between receipt of complaints and their referral to the Hearing Examiner Division.

Response: The PSC implemented process improvements aimed at resolving the complaint through arbitration. This resulted in a slightly longer process (above the current 30 day deadline but under the 60 day benchmark adhered to by OER) overall, but significantly reduced the number of Transportation Hearings before the Commission.

<u>Page 16 Under the Title "Recommend Actions"</u>

1. Reduce special funds for turnover expectancy to better reflect the actual number of vacancies. This increases the turnover rate to 5.2%. The special fund reduction shall be allocated among the divisions.

Response: The PSC maintained an 8% turnover rate in compliance with the Commission's Budget from FY 2005. The Commission requested to reduce the rate to 4%, a number that more accurately reflects a fully staffed agency. This request was made and granted by the Department of Budget and Management based on requirements placed on the Commission by exogenous events. A few examples have been sited within the Legislative Policy Analysis of 1/23/05 such as the FPL/ Constellation Proposed Merger and BGE Utility Rate Cap Expiration. In addition, the PSC expects to receive a number of other rate cases from utilities, as well as the PSC's efforts to examine the Electric Restructuring Framework Settlement set to expire in 2008, and to comply with regulations promulgated pursuant to the Renewable Portfolio Standard. Because of these regulatory developments, the Commission is aggressively recruiting additional personnel. For these and other reasons, the Commission requests that the turnover rate remain 4%.

2. Reduce printing costs for pamphlets and brochures by 20%.

Response: The PSC assumed the funding requirement for the Consumer Education Program in Fiscal Year 2005. In order to do this and maintain fiscal conservancy, the PSC developed several streamlining procedures aimed at reducing material costs in operations. This resulted in lower costs of administration, enabling the Commission to redirect resources to address the added costs associated with consumer education. In an effort to maximize efficiency, the PSC will continually seek a reduction in operating expenses while maintaining its current high standards with respect to consumer education.

3. Delete PIN that has been vacant for over 12 months.

Response: The PSC completed its recruiting process and selected an individual slated for this PIN prior to receiving the Legislative Policy Analysis of 1/23/2005.

Page 18 Under the Title "Security, Enforcement, and Investigations Unit"

- "…PSC reports that five out of the eight positions are occupied."

Response: The PSC filled all of the positions associated with the Security, Enforcement, and Investigations Initiative. Currently, three of the positions are vacant. The Commission is in the process of recruiting for two. Upon completion, the PSC will recruit for the third position.

Public Service Commission

Operating Budget Hearing
Senate Budget &Taxation Committee
Sub-Committee on Health and Human Services

Monday, January 30, 2006

<u>Public Service Commission – Operating Budget Hearing</u>
Monday, January 30, 2006

The purpose of this Report is to provide information about the Public Service Commission's FY 2007 budget request and to respond to the issues raised by the Department of Legislative Services' Budget Policy Analyst.

<u>Summary of Public Service Commission's FY 2006 Budget:</u>

The Public Service Commission ("Commission" or "PSC") is currently a $11.6 million Agency consisting of 135 special fund employees, who oversee the operations of approximately 2,800 companies with $12.3 billion in assets. These companies provide critical services to all Marylanders in such diverse industries as natural gas distribution, electric distribution and transmission, water and sewerage, transportation and telecommunications. It is important to note that the number of authorized positions performing this vital state regulatory function continues to be less than in the early 1990's despite the increases in legislatively mandated programs. The Commission is a special funded agency, funded by assessments paid by public service companies. Increases or decreases in Commission expenditures affect utility assessments, **<u>not</u>** the taxpayer-supported General Fund.

<u>Major Trends</u>

Legislative Analyst:
Common Carrier Division: PSC's modification of the investigation and complaint process is expected to increase the time required between receipt of complaints and their referral to the Hearing Examiner Division.

PSC Clarification: The PSC implemented process improvements aimed at resolving the complaints through arbitration. This resulted in a slightly longer process (above the current 30-day deadline but under the 60-day benchmark adhered to by the Commission's Office of External Relations complaint process) overall, but significantly reduced the number of Transportation Hearings before the Commission.

<u>The Policy Analyst's Issues for Response</u>:

1. **BGE Utility Rate Cap Expiration:** Beginning July 1, 2006, Baltimore Gas and Electric Company's (BGE) obligation to provide fixed-priced standard offer service to residential customers will expire and, consequently, all residential customers that receive electric utility supply from BGE will be charged market-based standard offer service rates (SOS). According to industry observers, BGE customers who remain on its SOS may experience increased electric utility costs ranging from 20 to 35%. PSC should comment to the committees on the upcoming rate cap expiration and inform the committees of what measures it has taken to mitigate the potential rate shock to consumers.

PSC Response: The Commission has docketed Case No. 9052, to explore rate cap mitigation; the staff of the PSC has filed a proposal (copies were distributed to the sub-committee); and the Commission has received other proposals from interested parties. Since this is an ongoing litigation, it would be inappropriate for the PSC to comment on any potential outcome.

However, it is the intention of the Commission to have a decision in March, thus allowing the General Assembly time to address the matter if they so desire.

2. **Proposed Merger of the FPL Group, Inc. and the Constellation Energy Group:** On December 19, 2005, FPL Group, Inc. ("FPL") and Constellation Energy Group, Inc. ("Constellation") the corporate parent of Baltimore Gas and Electric Company ("BGE") holding company for BGE announced the merger of both companies which is expected to create the nation's largest competitive energy supplier and second largest electric utility portfolio. PSC should comment to the committees regarding any potential issues raised as a result of the merger and the potential impact of the merger on staff resources.

PSC Response: The Commission has docketed Case No. 9054 to review the FPL/Constellation merger and the potential impact on BGE. Since this is an ongoing litigation, it would be inappropriate for the Commission to comment on any potential outcome.

3. **BGE Gas Rate Increase:** On April 29, 2005, BGE filed an application with PSC to increase the base rates for its natural gas service. In Order No. 80460, PSC approved a revenue increase of $35.6 million. PSC should comment to the committees on the impact of Order No. 80460 to consumers.

PSC Response: The analyst accurately stated that the Commission rejected BGE's gas rate increase of $52.7 million. The Commission's order reduced the rate increase request by $17.1 million and allowed BGE to earn not more than $35.6 million in additional revenue.

The Policy Analyst's Budget Recommendations:

PSC General Comments

While the Commission appreciates the need for cost containment, further reductions by the General Assembly will significantly impact the PSC's efforts to accomplish its legislatively expanded mission. Moreover, as the Commission has pointed out on numerous occasions, any reduction in its budget results in a dollar-for-dollar reduction in the State's revenues. Funding for the Commission is solely derived by an assessment on the entities it regulates. The assessment is based on the authorized PSC budget. Therefore, any budget reduction is a dollar-for-dollar reduction in the assessment and thus, the State revenues it produces. In addition, given the expiration of rate caps, the FPL/Constellation merger, and other mandated activities, the Commission will need to be fully staffed in the coming fiscal year.

Recommended Actions

1. Reduce special funds for turnover expectancy to better reflect the actual number of vacancies. This increases the turnover rate to 5.2%. The special fund reduction shall be allocated among the divisions.

Response: The PSC is to maintain the 8% turnover rate in compliance with the Commission's Budget from FY 2006. The Commission requested to reduce the rate to 4%, a number that more accurately reflects a fully staffed agency. This request was made and granted by the Department of Budget and Management based on requirements placed on the Commission by exogenous events. A few examples have been cited within the Legislative Policy Analysis of January 23,

2006 such as the FPL/Constellation proposed merger and BGE utility rate cap expiration. In addition, the PSC expects to receive a number of other rate cases from utilities, as well as the PSC's efforts to examine the Electric Restructuring Framework Settlement set to expire in 2008, and to comply with regulations promulgated pursuant to the Renewable Portfolio Standard. Because of these regulatory developments, the Commission is aggressively recruiting additional personnel. For these and other reasons, the Commission requests that the turnover rate remain at the requested 4% level.
Amount of reduction: $46,591 SF

2. Reduce printing costs for pamphlets and brochures by 20%.

Response: The PSC assumed the funding requirement for the Consumer Education Program in Fiscal Year 2005. In order to do this and maintain fiscal conservancy, the PSC developed several streamlining procedures aimed at reducing material costs in operations. This resulted in lower costs of administration, enabling the Commission to redirect resources to address the added costs associated with consumer education. In an effort to maximize efficiency, the PSC will continually seek a reduction in operating expenses while maintaining its current high standards with respect to consumer education. However, the Commission needs to have this object funded at the level requested in anticipation of an increased demand for consumer education materials as a result of the ending of BGE's rate cap.
Amount of Reduction: $3,460

3. Delete PIN that has been vacant for over 12 months.

Response: The PSC completed its recruiting process and selected an individual slated for this PIN prior to receiving the Legislative Policy Analysis of 1/23/2005.
Amount of Reduction: $58,072 **Position Reduction: 1**

Updates

Clarification

Legislative Analyst

- "…PSC reports that five out of the eight positions are occupied."

PSC Clarification: The PSC filled all of the positions associated with the Security, Enforcement and Investigations Initiative. Currently, three of the positions are vacant. The Commission is in the process of recruiting for two. Upon completion, the PSC will recruit for the third position.